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SENSITIVE  
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DEPARTMENT FOR NEA/FO; NEA/ARP/BMCGOVERN; TREASURY FOR NATASHA  
ZAMECNIK

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TAGS: [ETRD](#) [KIPR](#) [EFIN](#) [ECON](#) [PREL](#) [AE](#)  
SUBJECT: DUBAI RECEIVES LIFELINE FROM ABU DHABI GOVERNMENT

REF: A. A) ABU DHABI 1114  
[1](#)B. B) DUBAI 530

CLASSIFIED BY: Jennifer Gavito, Deputy Principal Officer.  
REASON: 1.4 (b), (d)

[1](#)1. (C) SUMMARY: The Government of Dubai, acting through the Supreme Fiscal Committee, announced on December 14 that it had received USD 10 billion directly from Abu Dhabi in order to pay off Dubai World's real estate developer Nakheel's USD 4.1 billion sukuk (Islamic bond). The balance of the USD 10 billion will also be used to meet Dubai World's other short-term fiscal obligations through April 2010. Sheikh Ahmed bin Saeed al-Maktoum, Chairman of the Dubai Supreme Fiscal Committee, reassured investors, creditors, and UAE citizens that the government of Dubai will "always act in accordance with market principles and internationally accepted business practices." Additionally, a top Nakheel official explained to Econoff that Nakheel was bailed out because it is a strategic asset for Dubai and that the developer is confident that the support will provide more than enough liquidity to successfully complete its ongoing restructuring effort, as well as meet its future obligations. END SUMMARY.

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ABU DHABI BAILS OUT DUBAI WORLD AND NAKHEEL  
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[1](#)2. (C) Sheikh Ahmed bin Saeed al Maktoum released a statement on December 14 announcing that the Emirate of Abu Dhabi - and notably not the UAE federal government - had provided USD 10 billion to pay off Dubai World's upcoming debts and, in particular, Nakheel's December 14 USD 4.1 billion bond obligation. The markets had initially treated Dubai World's November 25 announcement of a six month standstill on part of its USD 59 billion debt payments as a potential default (Ref A). However, Dubai and regional markets had begun to recover in recent days on speculation of a possible deal. The Dubai government had also begun to publicly distance its books and sovereign obligations from that of Dubai World and other commercial entities (Ref A). The statement released by the Supreme Fiscal Committee mentioned that the funds from Abu Dhabi would only serve as short-term financial support for Dubai World until April 2010. Authorities did not immediately reveal the terms of the USD 10 billion cash infusion, fueling additional complaints about the lack of transparency in the handling of Dubai's finances. Meanwhile, trading stalled on UAE exchanges as most stocks hit their up limits and investors refused to sell.

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NAKHEEL SEES CLEAR PATH AFTER PAYMENT  
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13. (C) In a December 14 meeting with Econoff, David Nicholson, General Counsel for Nakheel, said that the developer fully appreciates the Government of Dubai and Emirate of Abu Dhabi's support to enable payment of the 4.1 billion sukuk payment. Nicholson said he could now see a clear path for Nakheel to successfully complete its ongoing restructuring effort and meet its future project development plans. Nicholson argued that the payment was a signal of the government's commitment to Nakheel and its strategic value for Dubai and the UAE. Nicholson compared Nakheel's de facto bailout to that of the USG's financial support for General Motors and other key U.S. commercial entities. Nicholson said that Nakheel and Dubai World was arguably more "strategic" for Dubai than General Motors was for the U.S. because Nakheel has been at the center of Dubai's plans to create a logistics, trading and tourism hub in the broader MENA region in support of the Government of Dubai's published 15 year strategic plan.

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RESTRUCTURING CONTINUES DESPITE PAYMENT  
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14. (C) Nicholson told Econoff that Dubai World and Nakheel's restructuring efforts will continue despite the last minute payment of USD 4.1 billion sukuk. According to Nicholson, the restructuring effort and direction for Nakheel is being handled primarily at the Dubai World senior management level. He said that Nakheel would continue to face difficult and complicated negotiations with investors and contractors as they rationalize remaining debts and begin to jump start still outstanding project developments. (Note: According to a recent Barclays Report, Nakheel still has some USD 2.2 billion in loans due in 2009 and about USD 1 billion in bonds maturing by 2011. End Note) According to Nicholson, most banks have been helpful with respect to allowing Nakheel to reschedule its upcoming maturities. Nicholson explained that the USD 4.1 billion that was just paid was the real debt "bottleneck" for Nakheel and Dubai World. More importantly, however, this bailout was critical to the Government of Dubai and its perception in international financial circles as a credible borrower.

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COMMENT  
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15. (C) The last minute USD 10 billion cash infusion by the Emirate of Abu Dhabi, which was not directed through the UAE Central Bank or federal government as in the past, is a lifeline for Dubai World and Nakheel. The bailout investors had been anticipating before the November 25 announcement is more about saving Dubai than a commitment to saving the ailing Nakheel, however. The payment today may cover Dubai World's most immediate debts, but leads to only more questions about what will be done with other debts throughout Dubai Inc. It also adds to the uncertainty about the role of Abu Dhabi as a guarantor of Dubai's debts and what it means for the future relationship between the two Emirates. While today's news will certainly contribute to the changing dynamic between the two, it

is difficult to draw any easy conclusions. In any event,  
today's announcement is an important step forward in Dubai's  
restructuring and recovery process. END COMMENT  
SIBERELL